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As I see it

RENT CONTROLS SHOULD BE ABOLISHED

IN March 1942, more than nine years ago, rent levels on residential dwelling units were frozen at the levels which then prevailed to "help the war effort." During the ensuing period the bureaucrats in Washington have constantly insisted that rent control must be continued to protect the worker against "rent gouging." The Housing Expediter and the President are now calling for a rent control law more stringent than the one we already have, and are also asking for the right to control commercial rents.

In a speech on April 25 in Michigan, Tighe E. Woods, the Housing Expediter, said that the stage was set for skyrocketing rents unless this new legislation was passed. In this speech he stated: "I have repeatedly pointed out that the American way to end rent control was to produce housing for the American people at prices they could afford." Mr. Woods is wrong. The American way to solve any supply and demand problem is to allow prices (or rents) to rise until they reach the point where new articles (or houses for rent) can be produced at a profit. I have constantly insisted that the best cure for high prices is high prices, as high prices increase the rate of production, and that the best cure for high rents is high rents, because high rents result in a large increase in the number of rental units thrown on the market, both new units and units in existing buildings which at frozen rentals will be offered for sale but not for rent.

In the years 1927, 1928 and 1929 residential rents were high in relationship to construction costs and in those years 42% of all nonfarm dwelling units built were built for rent, and this was done without the benefit of government incentives of any kind. At that time the government did not guarantee sound or unsound mortgages and a construction loan was made only if the lender was willing to assume the risk. During the last three years under rent control only 19% of all nonfarm dwelling units built have been built for rent and these units have been built in practically all cases by the Federal government assuming practically the entire risk by guaranteeing mortgages for a very large percentage of the cost, in many cases practically 100%.

In the same Michigan speech Tighe Woods, the Housing Expediter, said that although rent control does not build housing, control is the housing policeman that keeps rents in check until there is some reasonable balance between supply and demand. I think we could re-emphasize the first part of this statement, as rent control has definitely prevented the building of rental units in quantity.

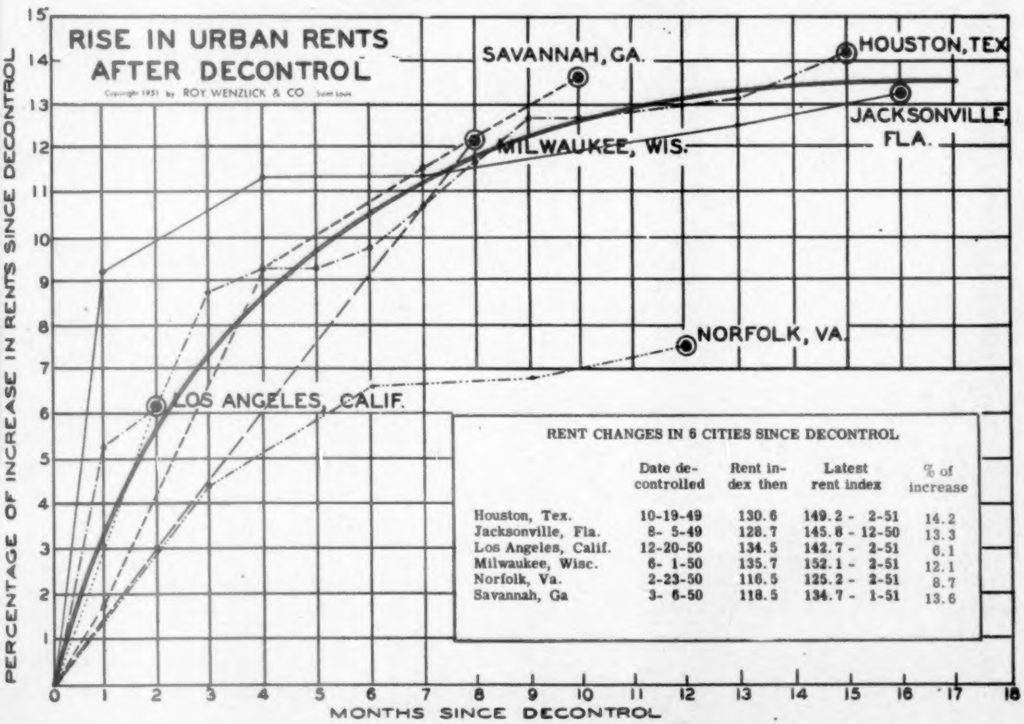
Washington officials are finding some difficulty in explaining the figures from

the 1950 census showing that in all nonfarm areas of the United States in 1940, 6.5% of the dwelling units were vacant, but that in April 1950, 7.05% were unoccupied. Of course, it is true that relatively few of the vacant houses in controlled areas are for rent, but they would be were rents allowed to find their natural level.

Tighe E. Woods says that the stage is "set for skyrocketing rents." The fact that removal of controls will cause tremendous increases in rents has been used constantly in the fight to retain controls in each city which has done away with them.

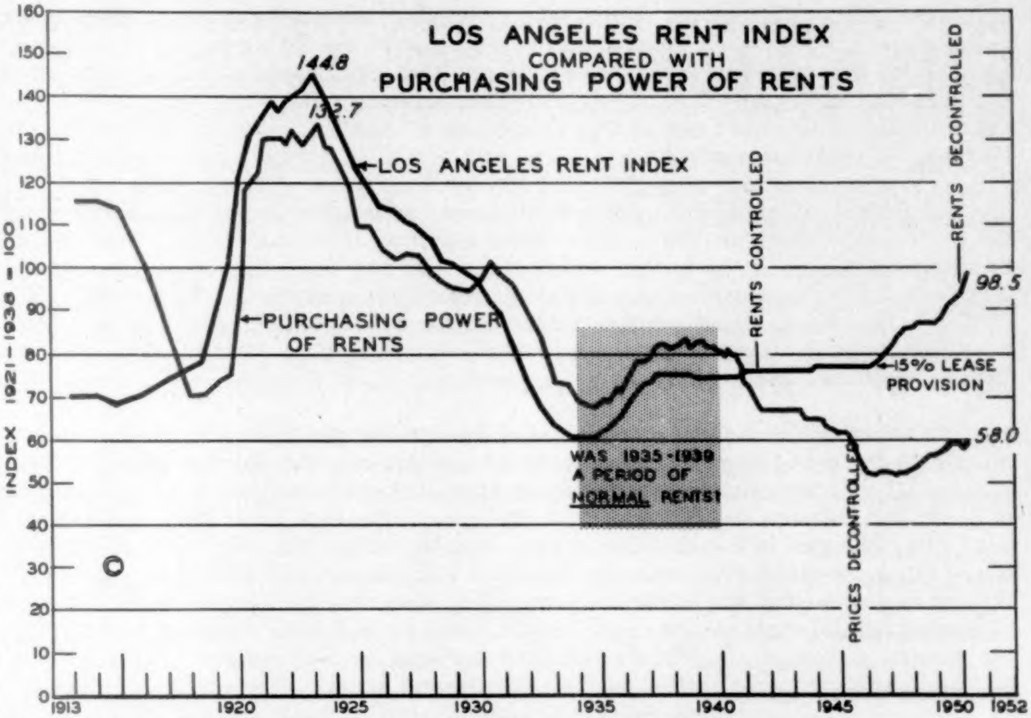
How high would rents go were rent control to be abolished? I think that we have very definite indications in what has happened in cities which have thrown out rent control. The Bureau of Labor Statistics has prepared for many years in its cost of living figures rent indexes for 34 cities of the United States. Of these 34 cities, six are now free of rent control, and the chart and table below show what has happened to rent levels in these six cities.

On this chart each dot surrounded by a circle shows the most recent rent level according to the Bureau of Labor Statistics figures for a city as a percentage above the rent level at the time of decontrol. The scale along the bottom of the chart shows the number of months which have elapsed from decontrol to this most recent figure. For instance, the point for Los Angeles would indicate that after two months of decontrol the Bureau of Labor Statistics index of rents for Los Angeles had advanced by approximately 6%. The position of the dot for Jacksonville would show that after 16 months of decontrol rents in Jacksonville had advanced by slightly more than 13%. The largest increase was in the rapidly growing city of Houston, Texas, where after



RENT CHANGES IN 6 CITIES SINCE DECONTROL

	Date decontrolled	Rent index then	Latest rent index	% of increase
Houston, Tex.	10-19-49	130.6	149.2 - 2-51	14.2
Jacksonville, Fla.	8- 5-49	128.7	145.8 - 12-50	13.3
Los Angeles, Calif.	12-20-50	134.5	142.7 - 2-51	6.1
Milwaukee, Wisc.	6- 1-50	135.7	152.1 - 2-51	12.1
Norfolk, Va.	2-23-50	116.5	125.2 - 2-51	8.7
Savannah, Ga	3- 6-50	118.5	134.7 - 1-51	13.6



15 months rents had increased by slightly more than 14%.

The heavy red line on this chart shows the typical experience based on five of the six cities. This curve would indicate that in the period immediately following decontrol rents rise faster than they do in subsequent months, and that the rise after the first year of decontrol is relatively slight. This is quite logical and what we would normally expect.

The chart would also indicate that the average increase after 16 months was less than 14%, in spite of the fact that rentals had been frozen at an unusually low level. We have studied the fluctuations in rent levels in the 28 cities still under rent control for which the Bureau of Labor Statistics reports rent levels. During this same period, in spite of rent control, rent levels advanced by about 3-1/3% in these cities.

The rise in the rent level in Norfolk, Virginia, does not seem to be typical of decontrolled cities. In Norfolk after one year of decontrol, rents had risen by approximately 7½%. This is only slightly more than half of the increase which we would expect from the experience of the other communities.

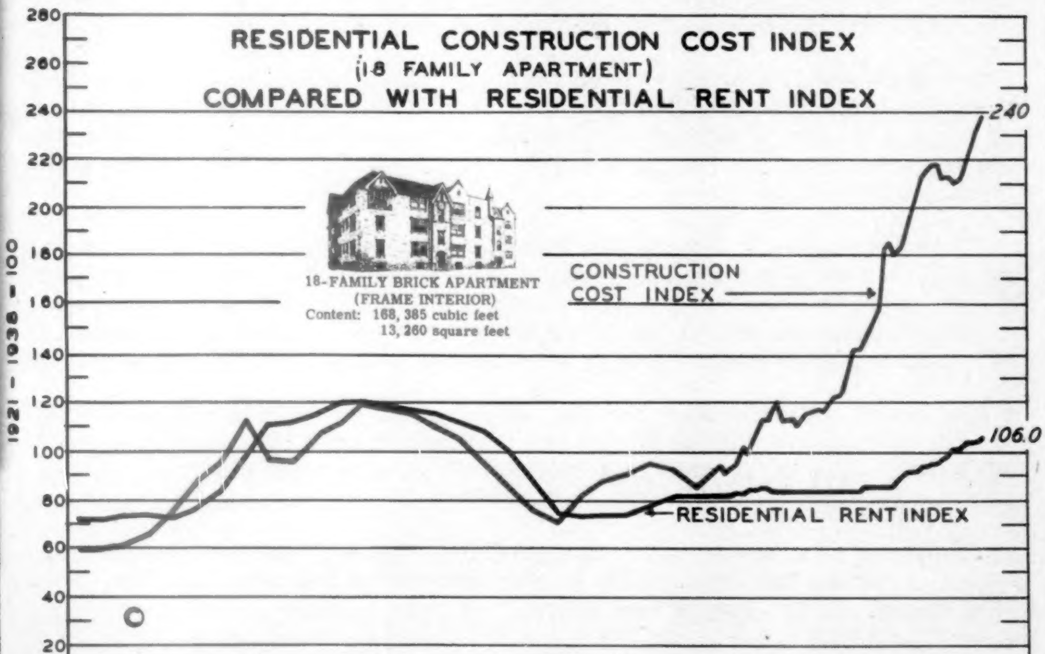
The city of Los Angeles, after a long and bitter fight with the rent control administrator, achieved decontrol of rents by court decision on December 20, 1950. This is the largest city to throw off rent control.

Since rents have been decontrolled, the average rent in Los Angeles has increased by 6% (see chart above), bringing the present level to a point approximately 1.5%

below the 1921-1938 average, which was a period of nine good and nine bad years for real estate. However, if the changes in the value of the dollar are taken into consideration, the rent level from the standpoint of purchasing power in Los Angeles at the present time is only 58% of the 1921-1938 level. A short time ago the Los Angeles Real Estate Board stated that fewer than 50 eviction suits had taken place in Los Angeles since decontrol..

The fallacy in many of the index numbers and articles on residential rents is that the period from 1935 to 1939 is considered a period of normal rents. This period is shown on this chart by a box, and it can readily be seen that at no time during this period did residential rents in Los Angeles approach the average of the 1921-1938 period, and during the entire period averaged only 69.3% of this level. Construction costs at the present time are 146% above the 1921-1938 level in contrast with decontrolled rents 1.5% below.

The chart below shows a comparison of the trend of the cost of building an apartment with the trend of residential rents as computed by the Bureau of Labor Statistics. It will be noticed immediately that prior to 1933 a rather definite relationship existed between the two, but with changes in the rent level lagging about one year after changes in construction costs. Subsequent to 1933, however, because of the very heavy residential vacancy together with the amount of distress property thrown on the market due to the very many foreclosures, residential rents fell considerably behind construction costs. In the latter part of 1941, rents started a gradual upward movement, but this was halted suddenly by rent control in March 1942, and for four years residential rent levels showed practically no change. The in-



crease since 1946 has been quite gradual.

This relationship between the trends of residential rents and the trends of construction costs has been charted by our organization back to 1851, and apparently in a free market the incentive for the building of new apartment units is the fact that rent levels are apparently high enough to pay a return on the current cost of construction. After the rise in rents from 1917 to 1926 it became possible to build dwelling units for rent as rents had increased by as large a percentage as construction costs.

Had interest rates remained the same, we would expect after studying the records of the past that if rent levels today were roughly equal to the levels of construction costs, new building of dwelling units for rent during the past few years would have gone forward at a rapid rate without government guarantees.

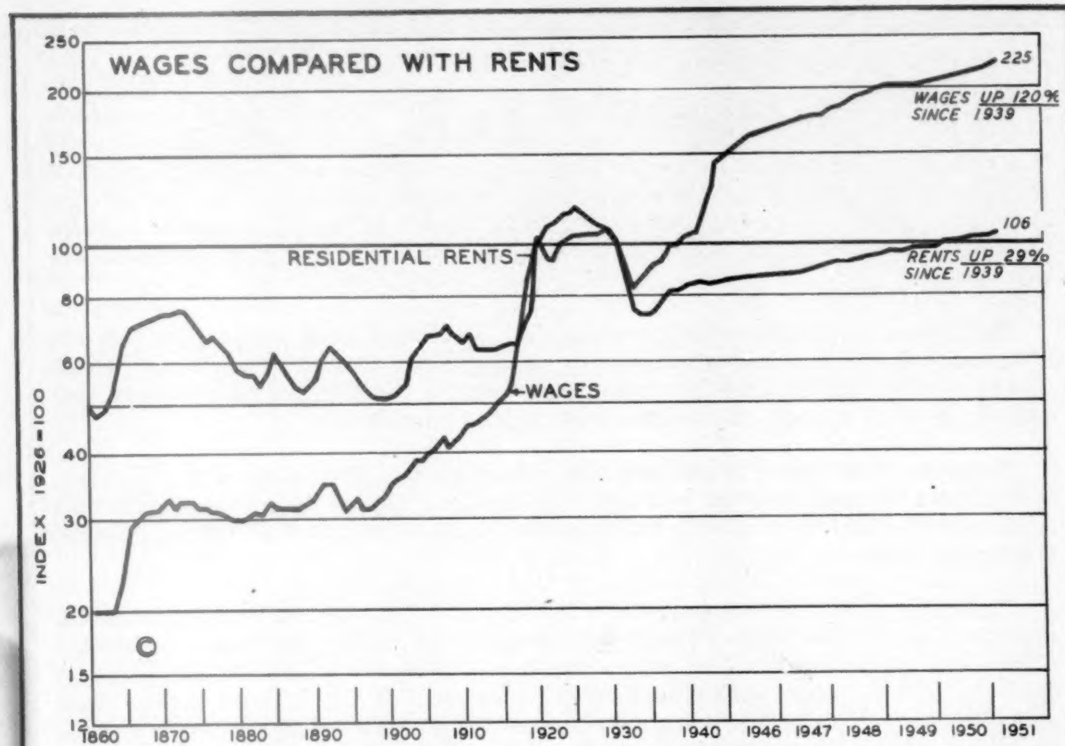
Since interest rates are considerably lower now than they were in the twenties, it would not be necessary that rent levels be nearly so high as the levels of construction costs in order to present a real incentive to build rental units without government guarantees.

The government found it necessary in order to stimulate new building of rental units to allow rentals in these units far in excess of comparable rents in existing structures. This has resulted in the division of tenants into two distinct classes: (1) those living in older units whose rents have been frozen and whose rent is being subsidized unwillingly, but at the command of the government by the owners of the property; and (2) those persons living in new buildings whose rent more nearly approximates a free competitive rent for the quarters.

The chart at the top of the following page shows a long-range comparison of residential rent levels in the United States with the levels of all wages and salaries. The rent index is the one computed by our own organization in the period prior to 1913, using the Bureau of Labor Statistics index for the period since that time. The wage index is the one computed by the New York Federal Reserve Bank and attempts to include the wages of all of the various groups in the employed population. It includes union workers, school teachers, policemen, clerks and other occupations, attempting to depict the general wage level of the country.

The difference in trend of the two lines is very striking. Wages in 1860 were about one-fifth the level of 1926, while residential rents at that time were half of the 1926 level. The general wage level at the present time is more than ten times the wage level of 1860, while the rent level is only slightly more than double the 1860 level. Accordingly, the average worker today can afford to live in a far better house, spending a smaller percentage of his income for housing than he has at any time in the past. This relationship is so favorable to the wage earner in comparison with the owner of real estate that it immediately brings into question the equity of rent control with its enforced subsidy to the tenant.

The chart at the bottom of the following page shows a comparison of the purchasing power of wages and rents since 1913. The wage earner in the period subsequent to 1913 has made rather consistent gains in actual purchasing power, with setbacks only in the years from 1945 to 1950. On the other hand, the owner of real estate


WAGES COMPARED WITH RENTS
225
WAGES UP 120%
SINCE 1939
106
RENTS UP 29%
SINCE 1939
RESIDENTIAL RENTS
WAGES
INDEX 1926=100
250
200
150
100
80
60
40
30
20
15
12
1860
1870
1880
1890
1900
1910
1920
1930
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1946
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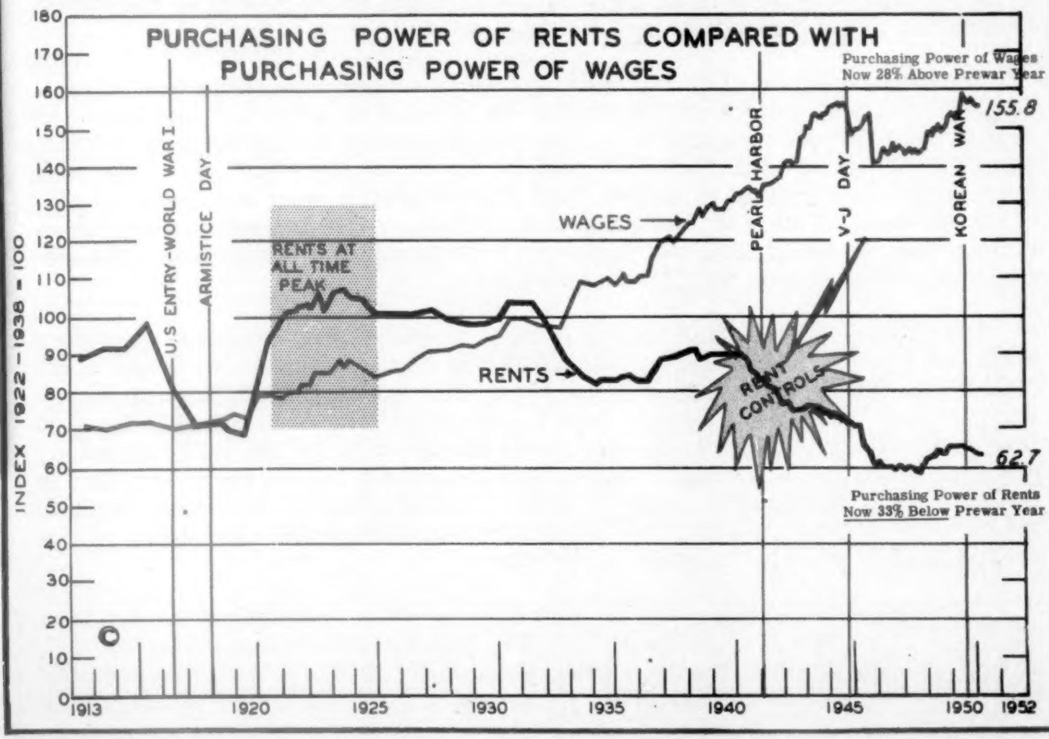
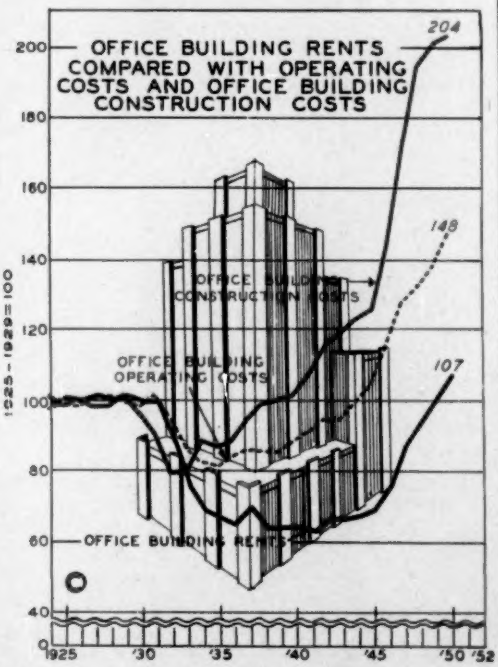

PURCHASING POWER OF RENTS COMPARED WITH
PURCHASING POWER OF WAGES
Purchasing Power of Wages
Now 28% Above Prewar Year
155.8
U.S ENTRY-WORLD WAR I
ARMISTICE DAY
RENTS AT
ALL TIME
PEAK
WAGES
PEARL HARBOR
V-J DAY
KOREAN WAR
RENTS
RENT CONTROLS
62.7
Purchasing Power of Rents
Now 33% Below Prewar Year
INDEX 1922-1938 = 100
1913
1920
1925
1930
1935
1940
1945
1950
1952

has seen the purchasing power of his return dwindle until now it is less than two-thirds as high as it averaged in the period from 1921 to 1938, a period which represented nine good and nine bad years for real estate. Putting it another way, the purchasing power of wages is now 28% above 1939, while the purchasing power of money received in rents is 33% below this prewar year. A family having bought a small rental property as an investment on which to retire eventually, has seen the purchasing power of the gross rental sink tremendously at the same time that maintenance costs and taxes were increasing. The resulting drop in net income would be considerably worse than gross rental as shown by this chart.

One thing which is not sufficiently emphasized in most discussions of rent control is that the tenant's reduction in rent is taken from the landlord. If the tenant must be subsidized, and certainly our chart showing the increases in the buying power of wages would not indicate this to be the case, there can be no equitable defense of forcing the landlord to subsidize the tenant. One reason that so little rental property exists on today's market has been the refusal of landlords to carry on under these unfair provisions. As a result, property has been progressively withdrawn from the rental market and the prospective tenant has been forced to buy rather than rent. The end of rent control would undoubtedly see a large increase in the number of properties available for rent and it would no longer be necessary for a person needing a home and housing to rent, to buy on a market which is very close to the all-time high level. I firmly believe that many of the units which have been frozen would increase in rent by reasonable amounts such as those shown in the six cities which have been decontrolled, and that many of the higher rent units would gradually come down when forced into competition with an increasing supply of units for rent. This might throw some of the more recently erected apartment buildings into difficulty as they were built at very high costs to rent for high rentals made possible by the high scarcity market, a market which probably could not be maintained if the supply of rental units were greatly increased.



The bill now before Congress has provisions for the control of commercial rents as well as the control of residential rents. The chart to the right shows the average rents of office buildings in the United States as computed from the figures of all buildings operated by members of the Building Owners and Managers Association. This includes practically all large buildings in the United States. It will be noticed that in 1932 office building rents started dropping rapidly and lost more than one-third during the next six or seven years. Since 1945 office building rents have been rising, but the rise has been insufficient to take care of the

increase in operating costs, a figure derived from the same source and shown for the same buildings over the entire period. It will be noticed that while the rent level of all office buildings is now 7% higher than it was in the 1925-1929 period, the operating costs are 48% higher and the cost of building a new building is 104% higher, or more than double. I believe that it is inevitable that office building rents will climb further, and to prevent further increases would be to prevent additional building in the office building field. This would increase the pressure on existing space and would make it more difficult to hold down rent levels against a demand in excess of supply. The shortage of office space which still exists in many communities would be perpetuated.

The most certain way to depress office building rents over the long period is to allow them to rise to the point where they furnish an incentive for additional building. The resultant building oversupplies the market and, as a result, competition between owners of buildings for tenants causes office building rents to fall.

ROY WENZLICK